

International Climate Change Financing: The Climate Investment Funds (CIFs)

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Summary

The United States contributes funding to various international financial institutions to assist developing countries to address global climate change and other environmental concerns. Congress is responsible for several activities in this regard, including (1) authorizing periodic appropriations for U.S. financial contributions to the institutions, and (2) overseeing U.S. involvement in the programs. Issues of congressional interest include the overall development assistance strategy of the United States, U.S. leadership in global environmental and economic affairs, and U.S. commercial interests in trade and investment. This report provides an overview of two of the larger and more recently instituted international financial institutions for the environment—the Climate Investment Funds (CIFs)—and analyzes their structure, funding, and objectives in light of the many challenges within global environmental finance.

The CIFs are investment programs administered by the multilateral development banks (MDBs) that aim to help finance developing countries' transitions toward low-carbon and climate-resilient development. Formally approved by the World Bank's Board of Directors on July 1, 2008, the CIFs are composed of two trust funds—the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)—each with a specific scope, objective, and governance structure. The CTF provides financing for demonstrating, deploying, and diffusing low-carbon technologies that have the potential for long-term avoidance of greenhouse gas emissions. The SCF—a suite of three separate funds, including the Pilot Program for Climate Resilience (PPCR), the Forest Investment Program (FIP), and the Scaling Up Renewable Energy Program in Low Income Countries (SREP)—supports the least developed countries in their efforts to achieve low-carbon, climate-resilient development. Overall, donor countries have pledged \$7.6 billion to the funds since September 2008 in support of programs in 49 developing countries. The U.S. pledge in 2008 was for a total of \$2 billion. For FY2010, Congress approved \$375 million for the CIFs (the Consolidated Appropriations Act, 2010, H.R. 3288; P.L. 111-117); for FY2011, Congress approved \$234.5 million (the Department of Defense and Full-Year Continuing Appropriations Act, 2011, H.R. 1473; P.L. 112-10); for FY2012, Congress approved \$234.5 million (the Consolidated Appropriations Act, 2012, H.R. 2055; P.L. 112-74); and for FY2013, Congress approved \$234.5 million (the Consolidated and Further Continuing Appropriations Act, 2013, H.R. 933; P.L. 113-6). For FY2014, the Administration requested \$283.7 million for the funds.

The CIFs are just one set of financial mechanisms in a larger network of international programs designed to address the global environment. Accordingly, their effectiveness depends on how the funds address programmatic issues, build upon national investment plans, react to recent developments in the financial landscape, and respond to emerging opportunities. Proponents of the CIFs point to several factors in support of the funds, including an innovative programmatic design, a country-led investment process, and a balanced governance structure with enhanced stakeholder engagement. Proponents of the MDBs' role in environmental assistance emphasize several advantages to financing climate programs through the MDBs, including its commitment to private sector development, its capacity to leverage large co-financing arrangements, and its possession of fiduciary standards and institutional expertise. However, critics highlight several factors of concern with the CIFs and their Trustee, including a lack of transparency, coordination, and "polluter pay" responsibilities; a potential for increased debt burdens on developing countries; and a prior economic development policy at the development banks that is considered a conflict of interest for environmental protection.

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Introduction

Many governments acknowledge that environmental degradation and climate change pose international and trans-boundary risks to human populations, economies, and ecosystems that could result in a worsening of poverty, social tensions, and political stability. To confront these global challenges, countries have negotiated various international agreements to protect the environment, reduce pollution, conserve natural resources, and promote sustainable growth. While some observers have called upon developed countries to take the lead in addressing these issues, efforts are unlikely to be sufficient without similar measures being implemented in developing countries. Developing countries, however, focused on poverty reduction and economic growth, may not have the financial resources, technological know-how, or institutional capacity to deploy such measures. Therefore, international support for these areas has remained the principal method for governments to assist developing country action on global environmental problems.¹

The United States and other industrialized countries have committed to financial assistance for environmental initiatives through several multilateral agreements (e.g., the Montreal Protocol (1987), the United Nations Framework Convention on Climate Change (1992), United Nations Convention to Combat Desertification (1994), and the Copenhagen Accord (2009)). International financial assistance takes many forms, from fiscal transfers to market transactions, and includes foreign direct investment (FDI), bilateral overseas development assistance (ODA), and contributions to multilateral development banks (MDB)² and other international financial institutions (IFI), as well as the offering of export credits, loan guarantees, and insurance products.

Table 1 outlines recent U.S. financial support for multilateral environmental initiatives. Congress is responsible for several activities in this regard, including (1) authorizing periodic appropriations for U.S. financial contributions to the institutions, and (2) overseeing U.S. involvement in the programs. Issues of congressional interest include the overall development assistance strategy of the United States, U.S. leadership in global environmental and economic affairs, and U.S. commercial interests in trade and investment.³ As Congress considers potential authorizations and/or appropriations for initiatives administered through the Department of State, the Department of the Treasury, and other agencies with international programs, it may have questions concerning the direction, efficiency, and effectiveness of current bilateral and multilateral programs. This report provides an overview of two of the larger and more recently instituted multilateral mechanisms—the Climate Investment Funds (CIFs)—and analyzes their structure, funding, and objectives in light of the many challenges within the contemporary landscape of global environmental finance.

¹ For a more detailed discussion on various sources and mechanisms of financial assistance for climate change activities, see CRS Report R41808, *International Climate Change Financing: Needs, Sources, and Delivery Methods*, by Richard K. Lattanzio and Jane A. Leggett.

² The group of multilateral development banks referred to in this report includes the World Bank Group (WBG), African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), and Inter-American Development Bank Group (IDB).

³ For more substantive analysis of foreign aid and congressional roles, see CRS Report R40213, *Foreign Aid: An Introduction to U.S. Programs and Policy*, by Curt Tarnoff and Marian Leonardo Lawson; and CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson.

**Table I. Recent U.S. Budget Authority
for Multilateral Climate and Environment Funds**

In nominal US\$ million

Agency/Program	2010 Enacted	2011 Enacted	2012 Enacted	2013 Enacted ^a	2014 Request
Department of State					
Least Developed Country Fund	30.0	25.0	25.0	TBD	TBD
Special Climate Change Fund	20.0	10.0	10.0	TBD	TBD
World Bank Forest Carbon Partnership	10.0	8.0	TBD	TBD	TBD
Department of Treasury					
Tropical Forests Conservation Act	26.0	16.4	12.0	12.0	0.0
Global Environment Facility	86.5	89.8	119.8 ^b	129.4 ^c	143.8
Climate Investment Fund: Clean Technology Fund	300.0	184.6	229.6 ^d	175.3	215.7
Climate Investment Fund: Strategic Climate Fund - Pilot Program for Climate Resilience	55.0	10.0	18.7 ^e	25.0 ^f	34.0 ^g
Climate Investment Fund: Strategic Climate Fund - Forest Investment Program	20.0	30.0	37.5 ^e	12.5 ^f	17.0 ^g
Climate Investment Fund: Strategic Climate Fund - Scaling-Up Renewable Energy	0.0	10.0	18.7 ^e	12.5 ^f	17.0 ^g

Source: Office of Management and Budget, *The Budget of the United States Government*, 2011, 2012, 2013, and 2014; CRS correspondence with Department of State and Department of the Treasury.

Notes: TBD, “to be determined”: Appropriated funds for some programs/activities are drawn from larger line item categories in agency budget authorities, occasionally with “shall”-language implementing spending ceilings. Allocations for these programs are left at the discretion of the agency and have yet to be determined and/or fully reported.

- a. Except where noted, FY2013 Enacted amount is as continuing resolution in the Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6). Figures do not include sequestration reduction.
- b. FY2012 Enacted amount for GEF includes the transfer of \$30 million from the Economic Support Fund as provided in the Consolidated Appropriations Act, 2012 (P.L. 112-74).
- c. FY2013 Enacted amount for the GEF is as provided in the Consolidated and Further Continuing Appropriations Act, 2013 (P.L. 113-6).
- d. FY2012 Enacted amount for CTF includes the transfer of \$45 million from the Economic Support Fund as provided in the Consolidated Appropriations Act, 2012 (P.L. 112-74).
- e. FY2012 Enacted amount for SCF includes the transfer of \$25 million from the Economic Support Fund as provided in the Consolidated Appropriations Act, 2012 (P.L. 112-74).
- f. FY2013 Enacted amount for SCF is \$47.3 million for all three programs. The figures in the table reflect Treasury’s internal proposal for contribution among the PPCR, FIP, and SREP.
- g. FY2014 Request amount for SCF is \$68.0 million for all three programs. The figures above are estimates of contributions to each program. Treasury will finalize contributions among the PPCR, FIP, and SREP in spring 2014.

The Climate Investment Funds

Background

Projected climate change is considered a potential threat to economic development, with anticipated effects on the environment, human health, food security, and economic activity. Further, climate change disproportionately affects the urban and rural poor of developing countries, thus making it a central concern to those interested in poverty reduction and sustainable development.⁴ Under this context, and at the request of the G8/G20, the multilateral development banks (MDBs) have recently sought to expand their support to low-carbon and climate-resilient investments in several ways, including (1) creating new and additional environmental funding resources, (2) repackaging their “core” financial products with specialized climate provisions, and (3) leveraging their suite of financial instruments for greater private sector environmental investment.⁵

In keeping with these aims, in February 2008, Japan, the United Kingdom, and the United States announced their intention to create a set of funds at the MDBs to help developing countries “bridge the gap between dirty and clean energy” and “boost the World Bank’s ability to help developing countries tackle climate change.”⁶ The World Bank held the first design meeting for the proposed Climate Investment Funds (CIFs) in March 2008 in Paris, France. Two subsequent meetings were held in Washington, DC, and Potsdam, Germany, and on May 23, 2008, representatives from 40 developing and industrialized countries reached agreement on the funds’ design and duration (the CIFs were programmed to sunset upon the commencement of a new climate fund in the United Nations Framework Convention on Climate Change (UNFCCC)). Formally approved by the World Bank’s Board of Directors on July 1, 2008, the CIFs have become an attempt to bridge the gap in climate financing between present obligations and a future global climate change agreement.⁷

The CIFs are composed of two separate trust funds—the Clean Technology Fund (CTF) and the Strategic Climate Fund (SCF)—each with a specific scope, objective, and governance structure. Overall, 14 donor countries have pledged \$7.6 billion (in historical value) to the funds since September 2008, which supports programming in 49 developing countries.⁸ The U.S. pledge in 2008 was for a total of \$2 billion. All U.S. funding is subject to annual congressional approval. Authorizing legislation is managed by the House Financial Services Committee and Senate Foreign Relations Committee. The House and Senate Appropriations Subcommittees on State, Foreign Operations, and Related Programs have jurisdiction over appropriations.

U.S. contributions include the following:

- FY2010, Congress approved \$300 million for the CTF and \$75 million for the SCF (the Consolidated Appropriations Act, 2010, H.R. 3288; P.L. 111-117).

⁴ As summarized by the International Institute for Sustainable Development, at <http://www.iisd.ca/download/pdf/sd/ymbvol172num2e.pdf>.

⁵ See the World Bank website for additional information at http://siteresources.worldbank.org/NEWS/Resources/Climate_Change_Results_Brief_4-12-10.pdf.

⁶ Henry Paulson, Alistair Darling, and Fukushima Nukaga, “Financial bridge from dirty to clean,” *Financial Times*, February 7, 2008.

⁷ For a full description of purpose and programs, see the CIFs website at <http://www.climateinvestmentfunds.org/cif/>.

⁸ Valued on the basis of exchange rates as of December 31, 2012, the last recorded Trustee Report for the CIFs, at <https://www.climateinvestmentfunds.org/cif/funding-basics>.

- FY2011, Congress approved \$184.6 million for the CTF and \$49.9 million for the SCF (the Department of Defense and Full-Year Continuing Appropriations Act, 2011, H.R. 1473; P.L. 112-10).
- FY2012, Congress approved \$184.6 million for the CTF and \$49.9 million for the SCF; however, provisions for funding transfers were included. Using these provisions, the Department of State transferred \$45 million from its Economic Support Fund to the CTF, and \$25 million to the SCF during FY2012 (the Consolidated Appropriations Act, 2012, H.R. 2055; P.L. 112-74).
- FY2013, Congress approved \$184.6 million for the CTF and \$49.9 million for the SCF through a continuing resolution (the Consolidated and Further Continuing Appropriations Act, 2013, H.R. 933; P.L. 113-6). FY2013-enacted account level estimates are subject to the budget sequestration process as established by the Budget Control Act of 2011 (P.L. 112-25) and the American Taxpayer Relief Act (P.L. 112-240). The total budget impact of sequestration has yet to be determined.
- For FY2014, the Administration has requested \$215.7 million for the CTF and \$68 million for the SCF.⁹

The Clean Technology Fund (CTF)

Overview

Faced with energy and environmental challenges, among others, many developing countries see value in clean technology to meet their energy security, poverty alleviation, and sustainable development goals while also reducing their growth in emissions. However, the costs to developing countries of switching to cleaner technologies without financial assistance may be prohibitive. The CTF seeks to provide financing—principally to larger emerging economies and to regional groups—for demonstrating, deploying, and diffusing low-carbon technologies with the potential for long-term avoidance of greenhouse gas emissions. The fund promotes renewable energy and energy efficient technologies in the power sector as well as energy efficiency strategies in the transportation, building, industry, and agricultural sectors. Currently, the CTF is designed to support 15-20 country and regional investment plans and/or co-financed projects. As of March 2013, the CTF has endorsed 16 investment plans for \$5.58 billion in direct funding (with a projected \$40 billion in leveraged co-financing), including plans from Chile, Colombia, Egypt, India, Indonesia, Kazakhstan, Mexico, Morocco, Nigeria, Philippines, South Africa, Thailand, Turkey, Ukraine, and Vietnam, and one regional investment plan in the Middle East and North Africa (MENA) covering Algeria, Egypt, Jordan, Morocco, and Tunisia. Projects include support for wind energy, urban public transportation systems, solar water heaters, smart-grid development, and concentrating solar thermal power programs, among others (see **Table 3** for more detailed descriptions of the national investment plans).

Governance

The CTF is implemented through a partnership of the multilateral development banks (MDBs) and governed by representatives from the donor and recipient countries. The role of governance for the CTF is to approve investment plans, programming, and the allocation of financial

⁹ U.S. Department of State, FY 2014 Executive Budget Summary - Function 150 and Other International Programs, at <http://www.state.gov/f/budget/>

resources; and to provide guidance, performance evaluation, and reporting. It is further tasked with ensuring that the strategic orientation of the CTF is guided by the principles of the UNFCCC. The organizational structure of the CTF is equally balanced between donor and developing countries. All decisions are made by consensus. Other international organizations, the private sector, and civil society representatives are included as observers. All observer roles are “active,” allowing them to take the floor to make interventions, propose agenda items, and recommend experts. Observers do not vote during consensus decisions. The governance structure includes the following:

- The CTF Trust Fund Committee, which oversees and decides on the operations and activities of the CTF and includes (1) eight representatives from contributor countries; (2) eight representatives from eligible recipient countries; (3) a representative from the project recipient country (during deliberations on the investment plan, program, or project); (4) a representative of the World Bank; and (5) a representative for the other MDBs.
- The MDBs Committee, which facilitates collaboration, coordination, and the exchange of information, knowledge, and experience among MDBs partners.
- The Partnership Forum, which supports civil society engagement and includes representatives of donor and eligible recipient countries, MDBs, U.N. and U.N. agencies, Global Environment Facility (GEF), UNFCCC, Adaptation Fund, bilateral development agencies, NGOs, indigenous peoples, private sector entities, and technical experts.
- The Administrative Unit, which supports the work of the CIFs, is housed in the World Bank’s Washington, DC, offices.
- A Trustee (the World Bank), which holds in trust, as the legal owner and administrator, the funds, assets, and receipts that constitute the Trust Fund, pursuant to the terms entered into with the contributors.

Funding

Since September 2008, 14 donor countries have pledged over US\$7.6 billion (in historical value) to finance the two CIF trust funds. The total amount pledged by the nine contributing countries to the CTF has been US\$5.154 billion (in historical value)¹⁰ as of March 31, 2013 (see **Table 2** for pledges and contributions; **Table 1** for U.S. Budget Authority). The funds are to be disbursed as grants, concessional loans, loan guarantees, and other risk management instruments. Endorsed funding by the CIFs also serves to leverage co-financing from additional sources, including the private sector, multilateral financial institutions, recipient governments, state-owned enterprises, and carbon finance.

¹⁰ As of December 31, 2012, current value of the pledges was USD equivalent \$4.937 billion.

Table 2. Total Pledges and Contributions to the Clean Technology Fund

As of March 31, 2013 (USD millions)

Donor	Contribution Type ^a	Amount Pledged (historical value) ^b	Amount Pledged (current value) ^c	Receipts (current value) ^d
Australia	Grant	\$84	\$86	\$86
Canada	Loan	\$193	\$199	\$199
France	Loan	\$300	\$268	\$268
Germany	Loan	\$739	\$615	\$615
Japan	Grant	\$1,000	\$1,114	\$1,114
Spain	Capital	\$118	\$109	\$109
Sweden	Grant	\$92	\$80	\$80
United Kingdom	Capital	\$1,135	\$973	\$973
United States ^e	Grant	\$1,492	\$1,492	\$714
Total		\$5,154	\$4,937	\$4,158

Source: The CIFs website at <http://www.climateinvestmentfunds.org/>.

- a. Donor contribution types include grants, loans, and equity, and describe in broad terms the general requirements stipulated by the donors on their contributed funds. The U.S. government has historically contributed grant financing for reasons that include ease, ODA accounting practices, and flexible capital reflow provisions.
- b. Represents pledges valued on the basis of exchange rates as of September 25, 2008, the CIF official pledging date.
- c. Valued on the basis of exchange rates as of December 31, 2012.
- d. Valued on the basis of exchange rates as of December 31, 2012.
- e. The total U.S. pledge to the CIFs remains at \$2 billion. Contributions across funds are extrapolated from current allocations.

Program Areas

The CTF is based on country and regional investment plans that aim to support climate-friendly technologies. Investment plans are undertaken jointly by the recipients, the MDBs, other development partners, private industry, and civil society to build upon existing national strategies and demonstrate how the CTF can be complementary to the country's overall developmental activities. The CTF supports investment plans that are cost-effective and implementation-ready, can be scaled up quickly to impact development, and have the potential for significant greenhouse gas emission reductions. To receive CTF funding, a country must be eligible for official development assistance (ODA) and have an active MDB program.

The majority of CTF funding supports programs that help shape demand side markets for technology diffusion. The fund's criteria for lending allow for all renewable and energy efficiency initiatives, as well as large-scale hydroelectric power plants, natural gas plants, some forms of biofuels, power plant refits, and ultra-supercritical coal plants.¹¹ Funds are commonly targeted to support a variety of investment activities, including (1) direct purchase of technological goods and services; (2) direct investment into government infrastructure for transport or transmission modernization; (3) seed funds for financial intermediaries to incentivize clean technology

¹¹ No coal-fired power plants have been proposed or approved at this time. Hydroelectric power generation is currently included in the Ukraine proposal.

lending; and (4) investment support and risk mitigation strategies for private sector entry into the market. In short, the CTF attempts to address the additional costs contained in lower-carbon energy investment such that it becomes a viable option to conventional fossil-fuel power generation. **Table 3** outlines the endorsed investment plans as of March 31, 2013.

Table 3. Clean Technology Fund Investment Plans

(In USD millions)

Date of Endorsement / Revision	Country	Direct CTF Funding / Co-financing	Investment Plan
January 2009 / November 2012	Egypt	\$300 / \$1,817	Wind power; Urban transport (natural gas buses and a subway); Transmission upgrades.
January 2009	Mexico	\$500 / \$6,624	Energy efficiency (appliance & lighting); Urban transport (rapid bus); Wind power.
January 2009 / November 2012	Turkey	\$250 / \$2,378	Renewable energy and energy efficiency; Smart-grid technology.
October 2009 / October 2011	Morocco	\$150 / \$2,470	Energy sector privatization; Energy conservation; Urban transport.
October 2009	South Africa	\$500 / \$3,147	Concentrated solar power; Wind power; Solar water heaters; Energy efficiency.
December 2009	Middle East / N. Africa region	\$750 / \$4,391	Concentrated solar power; Transmission and distribution infrastructure.
December 2009 / February 2012	Thailand	\$170 / \$216	Renewable energy and efficiency; Urban transport (bus system).
December 2009 / August 2012	Philippines	\$250 / \$2,095	Solar power; Transmission infrastructure; Demand side management; Sustainable transport strategy.
December 2009 / June 2011	Vietnam	\$250 / \$3,978	Renewable energy and industrial energy efficiency; Urban transport (rail system); Initial capitalization of funds; Transmission infrastructure.
March 2010	Colombia	\$150 / \$2,340	Sustainable transport program; Public/private sector energy efficiency program.
March 2010	Indonesia	\$400 / \$2,630	Large-scale geothermal power; Biomass and other renewable energy.
March 2010	Kazakhstan	\$200 / \$719	Hydro and wind power; Public sector transport fuel switch; District heating; Energy efficiency.
March 2010	Ukraine	\$350 / \$2,012	Wind, hydro, biomass; Residential and government energy efficiency; District heating; Smartgrid technology.
November 2010	Nigeria	\$250 / \$510	Transport sector structure; Clean and renewable energy development; Energy efficiency; Financial sector reform.
November 2011	India	\$775 / \$4,069	Energy efficiency; Large-scale solar.
May 2012	Chile	\$200 / \$610	Concentrated solar power; Large-scale solar PV; energy efficiency and small-scale self-supply.
November 2012	Turkey-Stage 2	\$140 / \$397	Energy efficiency, energy finance.

Source: CTF committee meeting documents and national Investment plans, available at the CIFs website.

The Strategic Climate Fund (SCF)

Overview

Some governments and civil society organizations are concerned that climate change may exacerbate poverty situations and reverse economic gains in the developing world through the possibility of temperature increases, rising sea levels, droughts, changes in rainfall patterns, heightened disease patterns, and the lack of drinkable water. They believe that resources may be necessary to help low-income countries manage a response. Responses to climate change are likely to entail both mitigation efforts (i.e., slowing, then reducing greenhouse gas emissions) and adaptation efforts (i.e., managing the effects of short- and long-term climate outcomes). The SCF aims to help developing countries prepare for climate change by promoting low-carbon, climate-resilient development. Three targeted programs provide grants and concessional loans to pilot new approaches aimed at specific challenges:¹²

- The Pilot Program for Climate Resilience (PPCR) supports ways to integrate climate risk and resilience into the development strategies of low-income countries. Funds can be used to provide technical assistance to help with capacity building, policy reform, and sector investment.
- The Forest Investment Program (FIP) provides financing to countries to help them prepare for and participate in programs that aim to reduce deforestation. Funds can be used for managing forests and for educating indigenous and local communities about forest policies.
- The Scaling Up Renewable Energy Program in Low Income Countries (SREP) helps low-income countries adopt renewable energy solutions to aid in the development of their power generation sector. Funds can be used to provide policy support, technical assistance, financial management, and sector investment.

Governance

The SCF is implemented through a partnership of the multilateral development banks (MDBs) and governed by representatives from the donor and recipient countries. The governance and decision-making structure is similar to the CTF, but specifically includes the following:

- The SCF Trust Fund Committee, which oversees and decides on the operations and activities of SCF and includes (1) eight representatives from contributor countries; (2) eight representatives from eligible recipient countries; (3) a representative of the World Bank; and (4) a representative for the other MDBs.
- An SCF subcommittee for each of the targeted programs, which includes up to six representatives from contributor countries to the SCF Program, a matching number of representatives from eligible recipient countries, and such other representatives designated by the SCF Trust Fund.
- The MDBs Committee, which facilitates collaboration, coordination, and the exchange of information, knowledge, and experience among the MDBs partners.
- The Partnership Forum, which supports civil society engagement and includes representatives of donor and eligible recipient countries, MDBs, U.N. and U.N.

¹² Description of SCF overview and governance from CIFs, Annual Report 2009, on the CIFs website at http://www.climateinvestmentfunds.org/cif/sites/climateinvestmentfunds.org/files/cif_annual_report_final_021810.pdf.

- agencies, GEF, UNFCCC, Adaptation Fund, bilateral development agencies, NGOs, indigenous peoples, private sector entities, and technical experts.
- The Administrative Unit, which supports the work of the CIFs, is housed in the World Bank's Washington, DC, offices.
 - A Trustee (the World Bank), which holds in trust, as the legal owner and administrator, the funds, assets, and receipts that constitute the Trust Fund, pursuant to the terms entered into with the contributors.

Funding

Since September 2008, 14 donor countries have pledged over US\$7.6 billion (in historical value) to finance the two CIF trust funds. The total amount pledged by 13 countries to the SCF has been US\$2.413 billion (in historical value)¹³ as of March 31, 2013 (see **Table 4** for pledges and contributions; **Table 1** for U.S. Budget Authority). The funds are to be disbursed as grants, concessional loans, loan guarantees, and other risk management instruments.

Program Areas

The programming of the SCF is newer than that of the CTF, having launched no earlier than January 2009. However, each of the funds has begun endorsing investment plans. As of the April 30, 2013 meeting of the Joint CTF and SCF Trust Fund Committees, the status of each fund was reported as follows:¹⁴

- **The Pilot Program for Climate Resilience.** The PPCR became operational in January 2009. The program provides funding to the countries in two phases: (1) a technical assistance phase, which includes looking at how countries' development plans can be made more climate-resilient and deciding upon the types of investments countries could make; and (2) an implementation phase, which includes the dispersal of grants of up to \$1.5 million with the option of additional loans to implement programs. The PPCR Sub-Committee has endorsed 20 investment plans for \$1,034.4 million in PPCR funding. This includes plans for 18 countries (Bangladesh, Bolivia, Cambodia, Dominica, Grenada, Haiti, Jamaica, Mozambique, Nepal, Niger, Papua New Guinea, Samoa, St. Lucia, St. Vincent and the Grenadines, Tajikistan, Tonga, Yemen, and Zambia) and two regional programs (Caribbean Regional Program and the Pacific Regional Program). The plans are expected to leverage an additional \$1.47 billion in co-financing. **Table 5** outlines the endorsed investment plans as of March 31, 2013.
- **The Forest Investment Program.** The FIP became operational in February 2010. The FIP Sub-Committee has endorsed seven investment plans (Brazil, Burkina Faso, DR Congo, Ghana, Indonesia, Lao PDR, and Mexico) for \$370 million in FIP funding. These plans are projected to leverage an additional \$993 million in co-financing. An investment plan for Peru is expected to be endorsed in November 2013.
- **The Scaling Up Renewable Energy Program in Low Income Countries.** The SREP became operational in December 2009. The SREP Sub-Committee has endorsed six investment plans (Ethiopia, Honduras, Kenya, Maldives, Mali, and

¹³ As of December 31, 2012, current value of the pledges was USD equivalent \$2.257 billion.

¹⁴ See SCP Committee document, "SCF/TFC.10/3/Rev.1, Progress report on SCF targeted programs," at <https://www.climateinvestmentfunds.org/cif/workingdocuments/11015>.

Nepal) for \$240 million in SREP funding. The plans are expected to leverage an additional \$1.74 billion in co-financing. Investment plans for Liberia and Tanzania are expected for endorsement by November 2013.

Table 4. Total Pledges and Contributions to the Strategic Climate Fund

As of March 31, 2013 (USD millions)

Donor	Contribution Type ^a	Amount Pledged (historical value) ^b	Amount Pledged (current value) ^c	Receipts (current value) ^d
Australia	Grant	\$72	\$79	\$79
Canada	Grant	\$97	\$84	\$84
Denmark	Grant	\$47	\$45	\$45
Germany	Grant	\$88	\$78	\$78
Japan	Grant	\$200	\$218	\$218
Korea	Grant	\$6	\$6	\$6
Netherlands	Grant	\$76	\$76	\$76
Norway	Grant	\$241	\$229	\$229
Spain	Grant / Capital	\$34	\$30	\$30
Sweden	Grant	\$42	\$41	\$41
Switzerland	Grant	\$26	\$26	\$26
United Kingdom	Capital	\$976	\$838	\$838
United States ^e	Grant	\$508	\$508	\$200
Total		\$2,413	\$2,257	\$1,950

Source: The CIFs website at <http://www.climateinvestmentfunds.org/>.

- Donor contribution types include grants, loans, and equity, and describe in broad terms the general requirements stipulated by the donors on their contributed funds. The U.S. government has historically contributed grant financing for reasons that include ease, ODA accounting practices, and flexible capital reflow provisions.
- Represents pledges valued on the basis of exchange rates as of September 25, 2008, the CIF official pledging date.
- Valued on the basis of exchange rates as of December 31, 2012.
- Valued on the basis of exchange rates as of December 31, 2012.
- The total U.S. pledge to the CIFs remains at \$2 billion. Contributions across funds are extrapolated from current allocations.

Table 5. Pilot Program for Climate Resilience Investment Plans

(In USD millions)

Date of Endorsement	Country	Direct PPCR Funding / Co-financing	Investment Plan
November 2010	Bangladesh	\$110 / \$566	Enabling environment; infrastructure; coastal zone management; agriculture and landscape management.

Date of Endorsement	Country	Direct PCR Funding / Co-financing	Investment Plan
November 2010	Niger	\$110 / \$2	Agriculture and landscape management; climate information systems and disaster risk management; water resources management.
November 2010	Tajikistan	\$58 / \$84	Climate information systems and disaster risk management; enabling environment; agriculture and landscape management; water resources management; infrastructure.
April 2011	Caribbean - Grenada	\$25 / \$13	Climate information systems and disaster risk management; agriculture and landscape management.
April 2011	Caribbean - St. Vincent and the Grenadines	\$15 / \$12	Climate information systems and disaster risk management.
April 2011	Pacific - Samoa	\$30 / \$15	Infrastructure; coastal zone management.
June 2011	Cambodia	\$91 / \$340	Infrastructure, enabling environment; water resources management; agriculture and landscape management.
June 2011	Mozambique	\$91 / \$190	Agriculture and landscape management; enabling environment; water resources management; infrastructure; urban development.
June 2011	Nepal	\$91 / \$20	Enabling environment; climate information systems and disaster risk management; agriculture and landscape management; water resources management.
June 2011	Zambia	\$91 / \$116	Agriculture and landscape management; enabling environment.
June 2011	Caribbean - St. Lucia	\$27 / \$15	Climate information systems and disaster risk management.
November 2011	Bolivia	\$91 / \$49	Water resources management.
November 2011	Caribbean - Jamaica	\$30 / \$18	Enabling environment; climate information systems and disaster risk management; water resources management.
April 2012	Caribbean - Dominica	\$21 / \$17	Climate information systems and disaster risk management.
April 2012	Yemen	\$58 / \$5	Climate information systems and disaster risk management; coastal zone management.
April 2012	Caribbean - Regional Track	\$11 / \$11	Enabling environment.
April 2012	Pacific - Tonga	\$20 / \$0	Enabling environment.
April 2012	Pacific - Regional Track	\$11 / \$0	Enabling environment; coastal zone management.
November 2012	Pacific - Papua New Guinea	\$30 / \$0	Agriculture and landscape management.
May 2013	Caribbean - Haiti	\$25 / \$110	Agriculture and landscape management; climate information systems; infrastructure; urban development.

Source: PPCR committee meeting documents and national Investment plans, available at the CIFs website.

Current Issues

Each year, billions of dollars in environmental aid flow from developed country governments—including the United States—to developing ones.¹⁵ While the efficiency and the effectiveness of these programs are of concern to donor country governments, a full analysis of the purposes, intents, results, and consequences behind these financial flows has yet to be conducted.¹⁶ International relations, comparative politics, and developmental economics can often collide with global environmental agendas. Critics contend that the existing system has had limited impact in addressing major environmental concerns—specifically climate change and tropical deforestation—and has been unsuccessful in delivering global transformational change. A desire to achieve more immediate impacts has led to a restructuring of the MDBs' role in environmental finance and the introduction of many new bilateral and multilateral funding initiatives. The CIFs grew out of these concerns.

The effectiveness of the CIFs depends on how the trust funds address their programmatic issues, build upon their national investment plans, react to recent developments in the financial landscape, and respond to emerging opportunities. The following section investigates some of the current challenges facing the CIFs and summarizes some of the responses initiated by the funds.

Innovations by the CIFs

Since their inception, the CIFs have attempted to provide innovative approaches to global environmental issues and have introduced several processes to address the limitations of previous environmental finance.¹⁷ These innovations include, but are not limited to, the following:

- **Programmatic Design.** While the CIFs still aim to scale up existing practices and fund activities at the project level, they also were created to serve as laboratories for new financing schemes and vehicles for developing sustainable strategies. Funding strives to target the potential for large-scale transformation and to attain global environmental benefits. Stakeholders seek to share knowledge gained and inspire the use of best practice. As such, multinational or regional investment plans that support global development goals, energy security, industrial growth, diversification, and regional integration (e.g., the M.E.N.A. plan) best exemplify the CIFs' programmatic approach.

¹⁵ The Organisation for Economic Co-operation and Development (OECD) maintains information on Member countries' Official Development Assistance. Current data (accessed April 15, 2011) reflect that all OECD DAC Member countries contributed, on average, a total of \$2,283 million per annum over the period 2005-2009 to multi-sectoral environmental protection assistance (in 2010 US\$), and that the United States contributed, on average, \$285 million per annum over the same period to multi-sectoral environmental protection assistance (in 2010 US\$). See OECD StatExtracts database at http://stats.oecd.org/Index.aspx?DataSetCode=ODA_DONOR#.

¹⁶ This report does not aim to unpack the full range of discussions on environmental and developmental assistance. For a discussion on international development assistance in general, see CRS Report R40213, *Foreign Aid: An Introduction to U.S. Programs and Policy*, by Curt Tarnoff and Marian Leonardo Lawson. An overview and analysis of the history of environmental financing can be found in a number of source materials including recent book length studies by Inge Kaul and Pedro Conceição, *The New Public Finance: Responding to Global Challenges*, New York: Oxford University Press, 2006; and Robert L. Hicks, Bradley C. Parks, J. Timmons Roberts, and Michael J. Tierney, *Greening Aid?: Understanding the Environmental Impact of Development Assistance*, New York: Oxford University Press, 2008.

¹⁷ For further discussion regarding the limitations of past mechanisms for global environmental finance, see the section on institutional challenges in CRS Report R41165, *International Environmental Financing: The Global Environment Facility (GEF)*, by Richard K. Lattanzio.

- **Country-led Process.** Beyond a simple project-by-project approach, the purpose of the CIFs is to bolster the efforts of countries' official adaptation plans and their actions toward low-carbon, climate-resilient development. The country-led approach aims to integrate funding into the country-owned development strategies consistent with the Paris Declaration.¹⁸
- **Innovative Governance and Stakeholder Engagement.** In an effort to attain transparency and accountability, the governing structure of the CIFs is equally balanced between donor and developing countries. All decisions are taken by consensus, with no provision for voting. If a consensus is not possible, the proposal is postponed or withdrawn. Representatives from other international organizations, the private sector, and civil society are included as observers. All observer roles are "active," allowing them to take the floor to make interventions, propose agenda items, and recommend experts.

Issues in Support of the Multilateral Development Banks (MDBs) and Multilateral Assistance

The choice of financial mechanism and its administration is an important element to environmental finance. The differences among multilateral or bilateral assistance, grant or lending institutions, regional or global organizations, etc., all play a role in the structure of assistance. The decision to employ the MDBs as trustees for the CIFs has both advantages and disadvantages. Historically, the MDBs have provided financial assistance to developing countries, typically in the form of loans and grants, for investment projects and organizational capacity.¹⁹ Donor country support for the MDBs—including U.S. support—has assisted efforts to promote institutions, strengthen financial systems, undertake large infrastructure and social welfare projects, and develop property rights and rules of law. Through increased global integration, the aim of the MDBs has been to bolster economic growth, poverty alleviation, and resource allocation (including greater access to electricity) in developing countries while simultaneously building new markets for developed countries' exports and jobs. In 2008, at the urging of some donor countries,²⁰ a strategy to address climate change was added to the MDBs' development agenda. The "Strategic Framework on Development and Climate Change"²¹ analyzed the risks of climate change to economic development and served as a basis for integrating mitigation and adaptation planning into national development plans. Donor countries see several advantages to financing climate programs through the institutional structure of the MDBs. These advantages include, but are not limited to, the following:

- **Commitment to Private Sector Development.** Many donor countries—including the United States—believe that climate-friendly economic growth can be led by the private sector through such efforts as improving access to financial markets, building the capacity of entrepreneurs, and providing training to civilian society. One aim of the MDBs is to help foster private sector development by

¹⁸ The 2005 Paris Declaration, endorsed by over 100 countries, aims to increase harmonization, alignment, and management of aid for results with a set of actions and indicators that can be monitored. See <http://www.oecd.org/dataoecd/11/41/34428351.pdf>.

¹⁹ For a fuller discussion on the structure and the role of the MDB system, refer to CRS Report R41170, *Multilateral Development Banks: Overview and Issues for Congress*, by Rebecca M. Nelson.

²⁰ Including the United States. See the negotiations at the 2005 G8 Gleneagles Summit at <http://www.g7.utoronto.ca/summit/2005gleneagles/>.

²¹ See <http://siteresources.worldbank.org/EXTCC/Resources/407863-1219339233881/DCCSFTechnicalReport.pdf>.

leveraging donor funds into highly effective co-financing arrangements. Historically, the U.S. Administration has supported these efforts. In a March 25, 2010, hearing before the House Appropriations Subcommittee on State, Foreign Operations, and Related Programs, the Treasury Department went on record as stating that the United States invests in the MDBs because “they help generate new engines of growth that benefit the U.S. economy and the global economy as a whole.”

- **Economies of Scale, Coordination, and Co-financing.** Proponents of the MDBs argue that multilateral assistance can solve problems of scale and efficiency by providing specialized expertise while lowering administration and coordination costs. Similarly, more competitive procurement rules, attractive cost-sharing opportunities, and the ability to leverage co-financing from other public and private organizations allow the MDBs to play a catalytic role in mobilizing financial aid.²² At the March 25, 2010, hearing noted above, the Treasury Department stated that the MDBs “provide strong, effective and highly leveraged means to advance global prosperity.... For every dollar the United States contributes to paid-in capital for the World Bank, six dollars of additional capital is generated by other donors. And, for every dollar we invest in the World Bank, \$26 worth of aid is delivered.”²³
- **Responsiveness to Donors.** The Treasury Department has similarly stated that the United States invests in the MDBs because they “promot[e] core American interests and values.” This arrangement is due primarily to the structure and organization of the banks. MDBs’ governance is weighted on the basis of the cumulative financial contributions and commitments by the donor countries, and thus, while a single trust fund, like the CIFs, may be designed to balance equally the roles of developed and developing countries, the MDBs are designed to give greater weight to the major donors. The United States retains the most influence on World Bank matters, with a 14.97% voting share and the ability to veto major policy decisions. It is followed by Japan in second place, Germany in third, and France and the United Kingdom tied for fourth. The only developing or emerging country with as much voting interest is China, at fifth, with 3.21%.²⁴ With a governing structure that requires one representative from the World Bank, as trustee, and one representative from the group of remaining MDBs, as well as eight representatives from participating donor countries, the overall governance structure of the CIFs has remained responsive to donor interests.
- **Possession of Fiduciary Standards.** Both current and past U.S. Administrations have argued that the World Bank has the proper internal safeguards to oversee large amounts of financing. As reported by the Department of Treasury, “the World Bank is an attractive trustee [for environmental funds] precisely because of its strong fiduciary standards and its extensive capacity to uphold them.”²⁵

²² Sources of additional funds most often include other MDBs and multilateral financial institutions, the recipient governments, state-owned enterprises, and carbon finance, as well as the private sector.

²³ See testimony at http://appropriations.house.gov/images/stories/pdf/sfo/Secretary_Geithner.3.25.10.pdf.

²⁴ As reported on the World Bank website, “Voting Powers,” at <http://go.worldbank.org/VKVDQDUC10>. These figures are for country voting shares at the International Bank for Reconstruction and Development (IBRD). Shares for the IFC, IDA, and MIGA may vary.

²⁵ As reported in Climatewire, “Eskom fallout spurs new opposition to World Bank’s role in climate funding,” May 24, 2010.

- **Possession of Institutional Expertise, Information, and Credibility Provisions.** Proponents of the MDBs claim that multilateral agencies offer larger and better trained staffs with greater technical expertise. They state that large infrastructure investment, particularly in innovative technologies and methods, requires professionals who are experienced in identifying and facilitating access to technology, sharing risks associated with commercialization, and improving institutional capacity. Beyond institutional knowledge, multilaterals also collect, interpret, and disseminate costly information on a global scale and provide credibility controls for both recipient and donor governments.

Issues of Concern for Developing Countries and NGOs

While advantages exist to financing climate programs through the institutional structure of the MDBs, concerns also persist. A variety of recipient countries and nongovernmental organizations (NGOs)²⁶ have highlighted a number of issues, including, but not limited to, the following:

- **Coordination with Other Funds.** Proponents argue that the fundamental principle of the CIFs is coordination at the country-level among interested stakeholders, including other developmental partners. However, some observers believe that the CIFs have created a parallel structure for financing climate change efforts outside both bilateral and the ongoing multilateral framework for climate change negotiations. They are concerned that without harmonization between the CIFs and the other sources of environmental finance (e.g., funds managed by the U.N., the Global Environment Facility, and bilateral sources), overlaps, redundancies, competing views, and lack of synergy may affect climate priorities, funding processes, and qualifying criteria.
- **Potential to Prejudice U.N. Climate Provisions.** Some commentators and several governments have expressed concerns that the establishment of the CIFs as trust funds in the MDBs may prejudice the outcomes of the international negotiations on climate finance within the framework of the United Nations. Many developing countries have expressly stated that they do not consider funds contributed to the CIFs as meeting U.N. Annex I obligations. Furthermore, the design of the CIFs includes a “sunset clause” stating that the CIFs “will take necessary steps to conclude its operations once a new [UNFCCC] financial architecture is effective.” The nature of these steps has yet to be determined. Further, additional contributions to the CIFs beyond the initial 2008 pledges (e.g., by Canada (\$193 million), United Kingdom (£375 million), Denmark (\$8 million), Germany (\$12 million), Norway (\$19 million), Sweden (\$25 million), and Switzerland (\$6 million)) may complicate these negotiations.
- **Potential for Additionality.** The UNFCCC provides that developed country signatories to the Convention “provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties” in their efforts

²⁶ There are many published critiques on the environmental agenda of the MDBs. Of specific relevance for CIFs, see, for example, Celine Tan, “No Additionality, New Conditionality: A Critique of the World Bank’s Proposed Climate Investment Funds,” TWN, 2008, at <http://www.twinside.org.sg/bangkok.briefings.htm>; Smita Nakhooa, “Catalyzing Low-carbon Development?” WRI, 2009, at http://pdf.wri.org/working_papers/development_clean_technology_fund.pdf; and Heike Mainhardt-Gibbs, et al., “Fuelling Contradictions: The World Bank’s Energy Lending and Climate Change,” Bretton Woods Project, CRBM & URGEWALD, 2010, at <http://www.brettonwoodsproject.org/art-566198>.

at mitigation and adaptation.²⁷ Some observers fear that the design of the CIFs establishes a parallel process for climate financing that does not result in new and additional resources. They are concerned that significant portions of the aid budgets of donors may be diverted into the CIFs and counted as part of their annual ODA commitments.

- **Lack of Polluter Responsibility.** Some commentators claim that the provision of loans as a financial instrument to eligible developing countries contradicts the internationally agreed principle of “polluter pays” as stated in the Rio Declaration. Some argue that the repayment of a loan, notwithstanding the degree of concessionality,²⁸ burdens a developing country with self-paying for a problem (climate change) that was caused by others (i.e., developed countries). They believe this burden may affect the country’s ability to generate resources for growth.
- **Commercial Influence.** While advantages exist in prioritizing market-based solutions to dealing with the problems of climate, some groups express concern that the private sector may be unduly driven by commercial interests at the expense of social or environmental safeguards.²⁹ Concern also exists that a dependence on market mechanisms as a source of climate financing may be inadequate and inconsistent for meeting the financial needs of developing countries charged with the responsibility of both implementing climate change commitments and mediating the social, economic, and environmental dislocations brought on by climate change.
- **Energy and Environmental Policy at the Banks.** Many observers claim that the history of the World Bank’s energy and infrastructure lending undermines its credibility as an institution committed to combating the impacts of climate change. Environmental NGOs have often highlighted the inconsistencies between the Bank’s rhetoric on climate change and its operational policies and practices. They emphasize that while the Bank has increased financing for renewable energy and energy efficiency in recent years, its fossil fuel lending still accounts for 56% of the energy sector share for fiscal years 2008 to 2010 (compared to 15% for renewable energy, 20% for energy efficiency, and 9% for large hydropower).³⁰ The controversy is compounded by the Bank’s inability to reach a consensus on the definition of “clean energy technology,” retaining provisions for ultra-supercritical coal-fired power generation in its environmental strategies.³¹

²⁷ See UNFCCC, Article 4:3, at http://unfccc.int/essential_background/convention/background/items/1362.php.

²⁸ “Concessional” or “soft” loans are loans extended on terms substantially more generous than market loans. The concessionality is achieved either through interest rates below those available on the market or by extended grace periods, or a combination of these.

²⁹ This concern has been levied against the Bank’s brokering of carbon purchases through its Prototype Carbon Fund. See Bank Information Center, et al., “How the World Bank’s Energy Framework Sells the Climate and Poor People Short,” 2006, at <http://www.bicusa.org/en/Article.2954.aspx>.

³⁰ See Bank Information Center, “World Bank Group Energy Sector Financing Update,” November 2010, at <http://www.bicusa.org/en/Document.102339.pdf>.

³¹ Ultra-supercritical coal-fired power generation is defined as “new pulverised coal combustion systems ... [that] operate at increasingly higher temperatures and pressures and therefore achieve higher efficiencies than conventional PCC units and significant CO₂ reductions. Supercritical steam cycle technology has been used for decades and is becoming the system of choice for new commercial coal-fired plants in many countries.” See World Coal Institute website at <http://www.worldcoal.org/coal-the-environment/coal-use-the-environment/improving-efficiencies/>.

- Recent guidance from the U.S. Administration regarding the World Bank's engagement with coal-fired power generation in developing countries similarly leaves the definition open, stating that projects "could include more carbon efficient fossil fuel generation" in their portfolio.³² While observers generally agree that funding from the CIFs is unlikely to be used in coal-fired power generation projects, most agree that continued investment by the World Bank in fossil fuel energy and infrastructure may have several unintended effects, including (1) counteracting any gains made with the Bank's renewable portfolio, (2) directing resources toward large-scale power generation for industrial use rather than energy access and poverty reduction in poor urban and rural communities, and (3) drawing the Bank's professional and technical staff away from a concentration on energy efficiency and renewable energy activities to remain involved with fossil fuels.³³

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³² See U.S. Treasury memorandum at <http://www.treasury.gov/resource-center/international/development-banks/Pages/guidance.aspx>.

³³ For discussion of further debate on this issue, see the World Bank's issue brief on "Energy," available at <http://go.worldbank.org/E084GP3GQ0>; and, as one example, Heike Mainhardt-Gibbs, et al., "Fuelling Contradictions: The World Bank's Energy Lending and Climate Change," the Bretton Woods Project, CRBM & URGEWALD, 2010, at <http://www.brettonwoodsproject.org/art-566198>.